



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
City Hall Kiva Conference Room
3939 N. Drinkwater Blvd
Scottsdale, AZ 85251
NOVEMBER 8, 2006**

PRESENT: Jim Lane, Committee Member
Wayne Ecton, Committee Member (departed 3:18 p.m.)
Ron McCullagh, Committee Member

STAFF: Cheryl Dreska, City Auditor
Kyla Anderson, Audit Associate
Joyce Gilbride, Assistant City Auditor
Craig Clifford, Financial Services General Manager
Richard Chess, Accounting & Tax Audit Director
Scott McCarty, Financial Services Assistant GM
Michelle Korf, Deputy Director Downtown Group
Debra Baird, Community Services GM

CALL TO ORDER/ROLL CALL

Chairman Lane called the Audit Committee meeting to order at 3:00 p.m. Roll call was taken confirming the presence of all Committee members.

MINUTES - Approval of May 15, 2007, Committee Meeting Minutes

Committee Member Ecton made a motion to approve the May 15, 2007, minutes. Committee Member McCullagh seconded the motion. The minutes were approved by a unanimous vote of three (3) to zero (0).

Chairman Lane asked if there had been follow-up on the Cab Connection. City Auditor Cheryl Dreska indicated there had not. Chairman Lane requested an update regarding any progress in that regard, as well as any information regarding the ADA issue.

Committee Member Ecton asked if there was agreements on a timeframe for follow up. Ms. Dreska stated she did not remember specifically, but thought it was October.

GENERAL BUSINESS

Agenda Item 1 - Discuss Draft Audit Report - Amended and Restated Management Services Agreement Between the City of Scottsdale and the Scottsdale Cultural Council; Compliance with Section 2.10, Utilities

Ms. Dreska stated this component of the Restated Management Services Agreement between the City and the Scottsdale Cultural Council has been split out separately because it is something the City can respond to and use as part of the review of the new terms. This item only deals with the utilities for the managed facilities, the Center for the Performing Arts and Museum of Contemporary Art. She indicated this is a City compliance issue, not a Cultural Council compliance issue.

Ms. Dreska stated the City pays the utilities for the Center for the Performing Arts, and there is a provision in the Management Services Agreement that requires the parties to split the utility costs (electricity, sewer, water, gas). The provision for electricity has customarily been split 50/50, and the Management Services Agreement requires an allocation methodology for the other components. There is a process in place to bill for the electricity and water; however, there is not a process to bill for the natural gas component, and the City has been absorbing those costs. The process billing for the water has only been in place since 2004, and at that time they back-billed for that component.

Ms. Dreska indicated all of the bills for SMOCA are in the Cultural Council's name and there is no need to split that service. There is no routine pickup of solid waste at the Center for the Performing Arts, the Cultural Council shares a compactor with a neighboring business and the City disposes of their refuse in a container at the old Senior Center. Therefore, there is no need to allocate the cost of non-recyclable waste. The City's policy has been not to bill non-profit entities or City-owned businesses for recyclable pickup.

Committee Member Ecton indicated the City is currently negotiating a draft for a new agreement. He asked how the decision was made to start sharing the water component, and to back-bill to 2001.

Ms. Dreska stated the agreement has always specified that the cost of the water is to be allocated. The decision in 2004 was based on discussions with Financial Services, Facilities Maintenance, and the Contract Administrator.

Committee Member Ecton stated the water and natural gas should be considered as the new contract is negotiated. There is a possibility the Cultural Council may need additional funds if they are required to pay for these components.

Chairman Lane said this is an audit of the old contract and strictly a compliance issue with the existing contract, not new policy negotiations, and asked that the focus remain on the audit.

Ms. Dreska stated whether the terms stay the same or there are new terms, one of the issues to address is determining an allocation methodology for the water and natural gas in a building with co-tenants. Trying to compute an equitable split is difficult, and the

options include determining an allocation methodology or making these items part of the City's financial contribution.

Chairman Lane asked if there was anything in the contract that stipulates the Cultural Council be billed for the cost of natural gas. Ms. Dreska indicated the Management Service Agreement says it is to be allocated; however, it does not stipulate the percentage. Chairman Lane clarified there has been no payment from the Cultural Council for natural gas; however, it cannot be calculated because the contract does not indicate an allocation. Ms. Dreska stated any loss to the City cannot be determined due to the fact there has not been an agreed-upon allocation methodology.

Accounting & Tax Audit Director Richard Chess stated since the MSA was silent on the issues of the natural gas and the water, the City followed the common practice of billing 50% because they felt it was amenable to both parties.

Chairman Lane asked whether the Cultural Council owes the City retroactively for repayment of natural gas. Financial Services General Manager Craig Clifford indicated measures have already been taken to recoup those funds. Deputy Director Downtown Group Michelle Korf stated the Cultural Council has been retroactively billed from July 1, 2007. Ms. Korf stated this agreement has been in place since 1997, and Chairman Lane clarified with Mr. Clifford that some part of the natural gas charges should have been paid by the Cultural Council under that contract. Mr. Clifford stated that was correct; however, quantifying the amount owed would be difficult.

Committee Member McCullagh asked what the scope of an energy audit would be. Ms. Dreska stated the audit would encompass the appropriate allocation, not the previous usage. An energy audit would review the allocation split and building usage. Mr. Clifford said it is unknown at this time if this can be accomplished, since there is no separate metering.

Committee Member McCullagh suggested the City contribute 50% of last year's bill, with the second 50% being the responsibility of the Cultural Council. Mr. Clifford stated the City's computer room and IT staff also utilize that building, making it difficult to measure.

Chairman Lane asked why the energy audit is being held 12 months after the renovation. Ms. Korf stated the renovation will be replacing several air conditioning units on the building, and 12 months of usage is necessary to do an audit.

Chairman Lane clarified that Item 7 addresses whether or not there has been an energy audit, which there has not. Thus, the issue is not reevaluating the 50/50 split in the old contract. Committee Member McCullagh stated the actual allocation of consumption is the real issue. Ms. Dreska indicated there are two provisions to be taken into account. The contract states an energy audit is required if there is a change in building usage or other factors that would change the 50/50 percentage. The fact an audit was not performed cannot be changed; however, the issue becomes how the wording for the new agreement is implemented. If the new agreement implements an absolute 50/50 share, an energy audit may be a moot point unless there is a provision in the new agreement to adjust that percentage. If the current agreement stays in place, the best course of action would be to take the energy audit after the remodel to determine if the allocation needs to be changed. If the new agreement is approved before the remodel is complete, the provisions of the new agreement will take precedence.

Mr. Clifford expressed concern regarding the City's policy to provide free recycling services to all nonprofit entities Citywide. He stated that might set a precedent for nonprofit organizations to request other free City services. Committee Member McCullagh asked if this included every charitable, nonprofit organization in the City.

Mr. Chess indicated he spoke with Solid Waste Management Director Rick Pence, who suggested in order to be in tune with the City's Energy Policy, his department could provide recycling services to smaller charitable organizations. Mr. Chess stated the costs in the future could escalate, and said he asked Mr. Pence to provide a quantifiable number to do that.

Chairman Lane stated in order for the City Council to consider a policy of providing the collection of recyclable materials at no cost to Scottsdale's nonprofit organizations, the Council would need real quantification of the costs. If it is then determined that is not possible, this particular instance would have to be reviewed. It can be made exclusive through the contract.

Committee Member McCullagh asked if the City's schools were billed for this service. Ms. Dreska indicated there is no bill to the City for the collection of recyclables generated by the City, the school districts, or the nonprofits. The only bills for recyclables are to commercial entities that work with the City to have a recyclable container.

Committee Member McCullagh asked why a corporate entity would incur the extra costs of having recyclable services. Mr. Chess stated some companies are now trying to be environmentally responsible. Nationally there has been a drive to encourage companies to participate in recycling programs. Ms. Dreska clarified that companies pay for refuse service whether it is recyclable or not. Committee Member McCullagh asked if churches are charged for recycling services, and Ms. Dreska indicated they are not.

Chairman Lane asked if this is already a policy. Ms. Dreska stated it is not a Council-driven policy; it is a management policy that was implemented in the 1990s when the recycling program began. In order for it to be a Council-adopted policy, it must be codified into the City code.

Mr. Clifford clarified it is a historical practice, not a policy. He indicated if this is a Citywide practice, it should be reevaluated. Mr. Chess stated this is not an advertised service.

Chairman Lane stated if Item 6 is an exemption of fees, it should be brought to the City Council and be codified. Mr. Clifford stated staff would follow up with Municipal Services.

Committee Member McCullagh made a motion to accept the Draft Audit Report - Amended and Restated Management Services Agreement Between the City of Scottsdale and the Scottsdale Cultural Council. Chairman Lane seconded the motion, which was approved by a unanimous vote of two (2) to zero (0).

Agenda Item 2 - Update on staffing changes

Ms. Dreska distributed a revised organizational chart and indicated the department is fully staffed. She indicated Assistant City Auditors Joyce Gilbride and Lisa Gurtler will be in charge of the teams. Assignments for the teams will be made to establish relationships with the general managers.

Committee Member McCullagh asked if the City Council Office has been audited. Ms. Dreska stated the City Council Office falls under General Government, and they have been audited.

Agenda Item 3 - Discuss process to develop Audit Plan for calendar year 2008; solicit suggestions for audit prospects

Chairman Lane asked Committee Member McCullagh if he had any preliminary prospects for the 2008 Audit Plan. Committee Member McCullagh asked how many audits proposed for 2007 will be completed by the end of the year. Ms. Dreska stated the high turnover rate has made it difficult to complete the audits, and approximately 50% of the audits have been completed. Chairman Lane stated any incomplete audits will be reconsidered.

Committee Member McCullagh asked why the Audit Plan was not completed within a fiscal year. Ms. Dreska stated the Audit Plan is developed on a calendar year basis to facilitate smooth transitions in election years.

Ms. Dreska said she would not re-propose some items for the 2008 Audit Plan. Certain items have been deliberately not addressed, such as compliance with the Health Insurance Portability and Accountability Act, which falls under Human Resources. Staffing changes in the Human Resources Department made it difficult to do an audit due to lack of a general manager or a director. This item needs to be addressed, but should be scheduled for the end of the calendar year, depending on how staffing progresses. For the same reasons, the proposed audit regarding use of temporary staffing is also not recommended. Consideration for departments with high turnover rates should be given, unless there was a high risk to the City.

Ms. Dreska indicated she will make a recommendation to carry over some items, add some new items, and drop others. Chairman Lane asked for a list of the unfinished audits from calendar year 2007, along with suggestions whether to carry them forward.

Chairman Lane suggested an audit of in-lieu parking fees, and an accounting of how the funds are collected and used. Committee Member McCullagh asked valet parking be added to that request.

Chairman Lane asked if there has been contact with City Management as to their input on recommendations. Ms. Dreska indicated the teams will begin working on that. She presented a list of recommended items, and indicated a list of this size would be workable, depending on how large the scope of the items become.

Chairman Lane asked if the projected hours for the 2007 Audit Plan were adequate. Ms. Dreska stated some projects are over the budgeted hours due to staffing issues. Chairman Lane asked for an accounting of those projects, to include an explanation for

the overages. Ms. Dreska stated she will provide the budget and year-to-date hours for those projects.

Ms. Dreska stated the police chief is working on bringing forward a status update on the property room audit.

Ms. Dreska stated all of the internal audits have been completed with the exception of one cash count, and the travel audit is currently in process. She proposed continuing those items next year in order to complete four new cash counts, as well as including procurement cards and travel expenditures as ongoing audit processes.

Agenda Item 4 - Update by City Auditor on Status of Current Projects

a. WestWorld Financial Audit

Ms. Dreska indicated Ms. Gilbride took over the WestWorld financial audit, which has been broken into sections. Sections of audits have been released for management review as they are completed. Two sections have yet to be completed, the Basin Management Fund and collection of RV revenue. After the revenue side of the audit is complete, a second report will be issued for expenditures.

Chairman Lane asked if the personnel issues on the RV side came through this audit. Ms. Dreska stated they are aware of those issues, but they are separate and distinct from this audit.

b. Cultural Council Management Services Agreement

Ms. Dreska stated the mall section of this agreement is currently underway, and will be presented separately. The remaining section will be drafted as one report.

Committee Member McCullagh asked if there was anything that could be provided to assist in the contract negotiations. Ms. Korf stated she has reviewed preliminary drafts of the report, and indicated most issues have been addressed.

c. Housing Assistance and Community Block Grant Development Programs

Ms. Dreska stated the goal is to do a complete risk assessment, identify the areas being audited by the external auditors or HUD, and identify if there is any value in doing any further auditing. Community Services General Manager Debra Baird said Mark Bethel oversees the block grant programs.

Ms. Dreska stated since these particular programs undergo so many audits, staff wants to ensure audits are necessary before proceeding.

d. Collection and Distribution of Scottsdale Cares Donations

Ms. Dreska stated the work has been completed and she is writing the report, which will be distributed for the 30-day comment.

e. Monitoring Expenses Associated with the use of Outside Law Firms

Ms. Dreska advised the work papers are in the review process.

Committee Member McCullagh asked for clarification on the scope of this audit. Ms. Dreska explained the decision to obtain the services is not included, only the controls. She indicated Risk Management has very good controls in place for hiring

outside legal counsel. The City Attorney has controls in place when a decision is made to hire a firm.

Committee Member McCullagh asked if there was a process to measure whether the bills reflected the actual work done. Ms. Dreska indicated that was not within her department's scope. The audit includes whether procedures are followed in the hiring process, and if the attorneys' bills are being monitored to ensure they are billing correctly and not exceeding Council's authorized expenditures.

Committee Member McCullagh stated he is interested the City Attorney's policies and procedures regarding monitoring the credibility of bills submitted by outside law firms. Chairman Lane stated that would fall under the responsibility of the City Attorney's Office.

f. Use of City-Issued Procurement Cards

Ms. Dreska stated the three audits have been completed and the report is out for 30-day comment. There were no issues found in any of the three audits.

g. Travel Expenditures

Ms. Dreska indicated the audit sample is approximately halfway complete, with anticipated completion before the end of the year.

h. Cash Handling

Ms. Dreska said three of the four random cash handling audits have been completed, and all is in order other than some minor housekeeping issues. The audit will be complete before the end of the year.

i. Compliance with statutory requirements for posting of meeting notices, preparation of agendas and access to minutes

Ms. Dreska stated after completing a preliminary survey, the recommendation is to not continue with this audit. A draft report has been distributed for management review with that recommendation.

PUBLIC COMMENTS

None.

COMMITTEE COMMENTS

None.

ADJOURNMENT

With no further business to discuss, the Audit Committee meeting was adjourned at 4:04 p.m.

Submitted by

A/V Tronics, Inc.

Reviewed by

Cheryl Dreska
City Auditor